

background report  
the housing production  
process in Ontario

advisory task force on housing policy

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1973

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ONTARIO ADVISORY TASK FORCE ON HOUSING

BACKGROUND REPORT

THE HOUSING PRODUCTION PROCESS IN ONTARIO

Prepared By

THE ONTARIO HOUSING ADVISORY COMMITTEE

April 1973

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April 5, 1973

Mr. Eli Comay  
Chairman  
Advisory Task Force on Housing Policy

Dear Mr. Comay

The Housing Production Process in Ontario

Herewith in booklet form is your Research Paper No.3 entitled "The Housing Production Process in Ontario" - all in response to your December 7, 1972 letter and our subsequent discussions.

In a letter of transmittal I like to be able to say that the work is delivered on schedule and within the budget. This time we can only say that the work is within the budget and we extend our apologies for any inconvenience the delay has caused!

The enclosed material is organized in accordance with your proposed terms of reference, and concentrates on methods or processes by which housing is produced, as requested -- all for the benefit of your committee members. Our committee members were most anxious to present our areas of concern, our identification of problems and recommended solutions. However, this will be the subject of another presentation.


Many members of our committee have contributed to this tract along with many municipal planners and engineers, builders and developers. However, as you appreciate, in any group there are always one or two people who do most of the work. In this case, these gentlemen are committee members, M.J. Bacon, MTPIC, and H.I.Stricker, P.Eng., along with our Executive Director, John R. Mason.

We trust this material is helpful.

Yours very truly

P.A.Monaghan  
Chairman  
Ontario Housing Advisory Committee





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## THE HOUSING PRODUCTION PROCESS IN ONTARIO

### INTRODUCTION

This review of the housing production process in Ontario is one of a series of reports requested by the Ontario Advisory Task Force on Housing Policy. Throughout the paper, therefore, every effort has been made to follow the suggested terms of reference as closely as possible, and there has been no attempt to assess the total housing production process or to make recommendations about ways in which to improve that process. However, where suggestions and recommendations which would help the Advisory Task Force understand the process were made by people involved in the process, and who were interviewed, they are included.

As only a short time was available to prepare the paper, and only a limited amount of research could be done, the bulk of it is based on interviews, discussion groups and written submissions. It does not pretend to be a completely documented and scholarly study, but rather to present a range of opinions about housing production in Ontario from some senior people involved in it on a day to day basis. No attempt has been made to check the statements made in the interviews, or the allegations found in the submissions. This job was left to the Task Force. We felt that in many cases people's perception of the process was at least as enlightening as the facts about the process.

Because of the time and budget constraints, only a limited number of builders, developers and planners in southern Ontario were consulted.

(The appendix lists the participants). It must then be emphasized again, that the following is not put forward as more than it is: the view of some important people whose collective responsibilities encompass a very substantial segment of the annual housing production in Ontario.

## A. NEED AND MARKET

A great deal of confusion has arisen over the difference between the need for, and the market for, housing. For the purpose of this paper a simple and logical definition may be to state need as

the quantity and quality of housing  
and its amenities felt necessary for  
our citizens in the light of our  
Government's overall social priorities;

and market as

the quantity and quality of housing  
our citizens can afford, or think  
they can afford, under the Govern-  
ment's housing policy in force.

This, however, is somewhat complicated by the fact that senior levels of government have no clearly stated overall social priorities and no stated housing policies. As a result, the lower levels of government can sometimes understandably mistake market for need, and frequently have neither the data nor the interest to consider the adequacy of shelter in relation to what the citizens can, or should, afford in anything but a cursory manner (with the sole exception of public housing).<sup>1</sup>

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1. See Programs in Search of a Policy - Michael Dennis and Susan Fish (Hakkert, Toronto, 1972).

## 1. Housing Need

No comprehensive housing policy has clearly been enunciated by any level of government. Questions concerning the optimum mix of housing and type of tenure to be provided, and the relationship of housing to income levels, household sizes and population age groups have only just started to be raised let alone answered. The responsibility for initiating and/or implementing housing policies is still undetermined.

Since 1949, the federal government has been very hesitant in dealing directly with the municipalities, or in initiating projects.<sup>1</sup>

"In most of its aspects, housing is a function of property and civil rights, and property and civil rights fall within the jurisdiction of the Provincial and Municipal Governments. Direct participation in housing development by the Federal Government is, therefore, limited by our limited constitutional authority. ...We stand ready at all times, to discuss this problem with any Provincial government as an effort to work out satisfactory and long term arrangements between the municipality, the Province and the Dominion."

Similarly, the provinces were very late in assuming any responsibility.

However, the submission of the Ontario Housing Advisory Committee to the Government of Ontario, entitled Proposals for the Development of a Housing Policy for Ontario, states "the primary responsibility for the provision of shelter rests with the individual" and further "when the individual is unable to provide for himself, the state has an obligation to assist him in the provision of shelter".

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1. See Central Mortgage & Housing Corporation Memorandum, June 3, 1949.



At the provincial level, in early 1960, the Ontario Housing Corporation was formed to deal with public housing. Because OHC was so busy providing so many units in such a short time, and, as far as is known, was not asked to, it did not develop any overall policies for housing in total.

With the provincial implications of a housing policy, the importance of a close integration between accommodation, employment and population, and the need for fairly uniform standards, the municipal level is probably not the one at which such a policy should be developed. However, in spite of a lack of provincial directions, most municipalities have some housing policies or goals included in their official plans. The effectiveness and comprehensiveness of these policies vary considerably. The following are put forward as examples of policies set out in plans. They are not meant to indicate the breadth of policies extent but merely to illustrate some statements made in respect of housing by some larger municipal units.

The City of Toronto, which is the largest municipality in the province and has one of the most sophisticated administrations, states in its official plan proposals, that:

"The objective of the civic policy for housing is to improve the quality of housing for every resident by insuring that residential areas are pleasant, attractive, free from congestion and features incompatible with good living conditions and provided with adequate community facilities." <sup>1</sup>

It does not attempt to transform these very general ideas into any concrete proposals. It is to be noted that both the Province of Ontario and the Municipality of Metropolitan Toronto feel there should be some limit to the growth of Metropolitan Toronto. However, it is suggested that developing a policy for residential housing in the area without relating it to the question of employment location is impossible and as yet this matter has not been resolved.

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1. See Proposals for a New Plan for Toronto, 1966

On the other hand, the City of Kitchener, although it has a very general basic premise concerning housing,

"...that all types of accommodation should be provided on an integrally planned basis so that every individual and family can choose the home that best suits its needs at any time during its life." 1

has developed very specific policies to help realize this premise: for example, Policy 4 for Residential Areas.

"Continue the City's Program of controlled cost housing with road rights-of-way reduced to 50 feet or less; sidewalks installed on only one side of the street or not at all; and utility requirements reduced. A special zoning category allows development on smaller lots, and the selling price on the home and lot is regulated by a controlled maximum price. Areas of these lower priced houses are to be located in all large new subdivisions." 2

Only four of the seven municipalities interviewed (Metro Toronto, Scarborough, Chinguacousy and Kitchener) had developed any specific policies relating the location, size and price of available accommodation to the employment, wage levels, and population mix in the community. Only two municipalities, Kitchener and Chinguacousy, appeared to implement their ideas, and it should be noted that Chinguacousy is a unique development in which there has been only one developer whose holdings have in effect been a large private "land bank".

Metropolitan Toronto has developed a public housing policy based on the recommendations of the Paterson Report.<sup>3</sup> It is also completing a detailed study of the population structure (which includes the number of family and non-family households, household size, family size, and age distributions) in Metro Toronto and the surrounding region to determine present and future housing requirements.

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1. See Proposal for the Kitchener Official Plan.

2. See Policies for the Kitchener Official Plan.

3. See Report on Housing Needs in Metro Toronto - Paterson



Because it is not yet finished, only a few attempts have been made to communicate any of the preliminary findings to the boroughs and no discussion has been held with its citizens. (The requirements are not broken down for any area smaller than Metro.)

In 1971, the Scarborough Planning Board requested a major study of the Housing Needs in the Borough. The staff produced a report<sup>1</sup> "to assist in the formulation of realistic housing policies to form the basis for the preparation of the remaining community plans". In it they recognized that the

"...continuance of the present method of trying to outguess the market place in an environment of high servicing and land costs, where changes in the planning process to meet short run market changes are onerous, increases risk and is a deterrent to orderly development and undermines many of the Board's basic planning objectives."

and that,

"For the Borough to continue the present policies in the new developing areas of the housing types consisting of a predominance of the extremes of the range - 6,000 square foot lots and 60 units to the acre apartments, limits the choice of housing for a large segment of the middle class, catering only to the upper middle class and the non-family resident."

This is on the continuing assumption that the country can afford home ownership and that it is everyone's desire. It was only after Scarborough was relieved of education responsibilities that it was able to propose such a policy. The planning staff recommended, therefore, that a variety of accommodation suitable for middle income families should be provided by permitting smaller lots and more diverse forms of housing, by limiting maximum floor areas for houses and by controlling minimum floor areas for apartments. They also recommended that a neighbourhood should contain a full range of dwelling unit types, and that in this distribution "full regard be had to the inadequacies of the present housing stock".

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1. See Borough of Scarborough, Agenda 18, June 10, 1971.

As a result Scarborough will now consider innovative subdivisions, but the policies are developing slowly and many of the policies they have adopted have not been reflected in the subsequent actions.

The Township of Chinguacousy's planning staff attributes its ability to formulate and implement effective policies dealing with housing need in the municipality to three main factors:

First, it is usually strongly supported by the Planning Board and Council; Second, it has (to date) dealt with only one developer, thus a more comprehensive development of the township was possible; and finally, (partly because there was only one developer and the municipality was able to make strong demands) the municipality enjoys a very strong financial base.<sup>1</sup> It is interested in providing more housing at reduced costs to the consumer by adopting innovations in siting and servicing standards, and adopting improved and quicker techniques for land registration. The previously established industrial-commercial-residential ratio is no longer required.

As another example, Kitchener has a high proportion of its population employed in manufacturing, and it has been most successful in meeting the accommodation needs of its labour force. It carefully controls the staging of each subdivision in an attempt to ensure that an adequate mix of housing types is being provided both throughout the city and within subdivisions. As has been mentioned, the municipality insists that special development areas for controlled cost housing be included in every large subdivision; it also supports innovative housing projects in order to meet its housing objectives.

The examples cited obviously do not cover the range of policies adopted or thought about in southern Ontario, let alone the whole province. They may, however, give an indication of the difficulty experienced in developing policies and in ensuring the type of housing that may be required.

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1. See Low Density Housing Study, Chinguacousy Township - November, 1971.



The cursory investigations made for this paper appear to indicate that there are four prime reasons why most municipalities are unable to provide the kind of housing they require.

First, many of those interviewed stated that the type of housing a municipality feels it can afford is severely limited by its assessment base. Because of the present tax structure, the cost of housing to the municipality is often felt to be far more important than the cost of housing to the consumer.

Second, at the political level the situation is difficult. Politicians are elected by the existing residents of the municipality; the residents are usually, more concerned with improving their own condition than with providing suitable accommodation for future residents.

Third, most municipalities lack both the money and the staff to conduct the background studies needed to initiate policies which will stand up to the developer's scrutiny. There is often no rationale behind the housing mix suggested in the official plan.

Finally, the municipalities lack the political and economic strength to implement their policies (if they do exist). The mix of units, and the rate at which they come on the market is thus determined primarily by the developers. The municipal planners have no realistic way of checking claims that it is not economically feasible to build at a certain density, or to provide a certain variety of units.

## 2. Housing Market

The amount of market research undertaken to determine housing demand varies substantially from area to area, and from company to company. The major differences in approach occur between highly urbanized areas (where generally there is a shortage of serviced land ) and less highly urbanized areas (where frequently there is not).

In less highly urbanized areas, and those where there is a large supply of land available, such as London, Brantford, Kitchener and Waterloo, the private sector usually conducts a proper market analysis. They try to gain as much information as possible from the municipality concerned, about registered plans of subdivision in the area, construction activity,

employment rates and income levels. They can then plan and test the model relatively carefully before going into full production.

Because of the high cost of housing, and of its financing, to both the developer and the consumer, the percentage of the population able to afford a single family house is decreasing sharply. To reach as broad a market as possible the developer is now trying to produce the cheapest total "package" possible.

Although originally builders tried to maintain a certain ratio of lot cost to building cost, they are now building smaller (thus cheaper) houses to attract more buyers.

Companies use different ways of determining the housing mix, depending on the individual company's size, sophistication, philosophy and shareholders (or lack of them). It is usually set by their market analysis, mortgaging appraisal and costs per square foot. They generally try to achieve the minimum exposure and maximum profit, bearing in mind the location. As a rule, therefore, apartments are not built for large families even though there might be a need.

### 3. The People Who Decide

At the municipal level, the people who influence decisions in the public sector are the municipal politicians, the planning board and its staff, the senior levels of government (particularly the province), the private builders and developers, and the ratepayers. The amount of power held by any one group differs in each municipality. In Kitchener, a politically effective housing committee of council was set up in 1966, which included three aldermen, and one member from the Kitchener-Waterloo House Builders Association, the Urban Development Institute, the Chamber of Commerce, and Kitchener-Waterloo Real Estate Board, the Kitchener Planning Board, the Kitchener-Waterloo Social Planning Council, Central Mortgage & Housing Corporation, and the Kitchener Planning Director. It has initiated many innovative and constructive housing policies.

In the private sector, the decisions are made primarily by the owner-developers, and the "public" decision



makers. While decisions are strongly influenced by CMHC programs, the lending institutions, the marketing and financial analysts, and the planning and design teams, the final decisions are made by the producer of the housing.

#### 4. Information

The public sector uses several different sources of information in its studies. It has its own land use reports and some data on the existing housing stock (vacancy rates, building conditions, etc.) although these are far from complete. A great deal of data is supplied by Statistics Canada on population, housing, employment and incomes. Finally, various provincial and federal departments and agencies provide statistics on general economic trends, projected growth rates, employment levels, etc.

The private sector has access to many of the same sources used by the municipalities. It also uses information about existing competitors working within an area, and relies on private market research to find out what type of units it should be providing.

Larger municipalities would like to have a more comprehensive inventory of existing lots and/or housing in their areas and to know how many are developed, undeveloped and in need of redevelopment. Several of those interviewed felt that a comprehensive data bank (developed by a senior level of government) would be a great asset. In addition to the data mentioned above, it could include an up-to-date and detailed survey of existing dwelling conditions, prices, type of tenure and occupancy rates, on a unit by unit or lot by lot basis.<sup>1</sup>

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1. An attempt to carry out a detailed survey of dwelling units was made by the Metro Toronto Planning staff, working with the Assessment Branch. Although it was not successful because of opposed departmental philosophies, this approach may provide a worthwhile example.

Those in the private sector feel that there should be greater accessibility to existing government information. That information could also be presented in a more usable form; for example, the province could supply data about the number of lots, densities and housing types being developed on a municipality by municipality basis. It is our understanding that the Ministry of Treasury, Economics and Intergovernmental Affairs through its Local Government Services Division provides a great deal of information on municipalities of interest to builders, developers and utility companies. The municipalities themselves could keep more efficient records of activities within the community (as is now done by Kitchener).

## 5. Locating Development

Municipalities use several different approaches to determine the location of development. First and most important, it must be related to existing (or proposed in the case of staging plans) services. The adequacy of sewer and water facilities, the transportation network, the schools and parks is critical. What can be vaguely defined as "planning principles" are also very significant. They govern many policies in the official plans; for example, those which state that more intensive development must be placed close to the core; that high density areas should be placed near transportation routes and be buffered from low density areas; and that conflicting dwelling types and land use should be separated.

Finally, the initiative of the developer in the community influences the land use. (In many municipalities, for instance, the secondary, district or community plans are prepared by a developer, with the help of the planning staff, not vice versa.) Depending on the council, the planning board and the financial strength of the community, the developer can play a large role in determining the location of development.



In the private sector, a different set of factors is considered. The market for a particular type of accommodation type in a certain area is vital. Second, the availability of land, and the cost of that land affects the final decision. The municipality's official plan and zoning by-law make up a third element which the developer must consider. He has to assess the present situation, and judge what amendment he will be able to obtain. Finally, the existence of servicing (now or in the not-too-distant future), the municipality's staging of development policies, and five year capital forecast determine where he will try to locate his subdivision or apartment buildings.

## B. THE DEVELOPMENT OF LAND

### 1. Acquisition

The most outstanding fact today about buying land for development in many highly urbanized areas is its astronomical price. This appears to be a direct result of the scarcity of supply relative to market forces, a factor which is controlled almost entirely by the public sector. It is the private sector, however, which is primarily concerned with land acquisition for housing (to date provincial land banking has been small in comparison with private activities).

Many of the elements which govern the purchase of land have been dealt with in the preceding section. The different approaches used by small and large developers should, however, be noted here. The small developer must keep his flexibility and avoid situations where his limited supply of capital is locked in, leaving him without room to manoeuvre. He, therefore, tries to acquire small land holdings, and to "get in and out" quickly.

This approach is becoming increasingly difficult in large urban areas where land costs are steep, competition is stiff and his exposure is high. The large developer wants to see a steady rate of production each year, with no wide fluctuations in construction and completions (particularly if it is a public company). He, therefore, concentrates on buying large tracts of land (frequently working through a broker to keep anonymity) to ensure a constant flow of reasonably priced land to be brought into production.

He tries to avoid picking up small pockets at retail prices.<sup>1</sup> The period of time land is held before being developed is a key factor, for it has been estimated that the price equals "the market price discounted over the estimated time of development". Land is usually purchased with a small cash investment, thus the carrying charges make up a very large part of its end price.

Another factor is the case of the speculator who does not intend to do the developing himself. The patterns for this kind of operation vary as to their numbers.

## 2. The Planning & Development Process

One must differentiate between the planning process in respect of raw land for subdivisions and that in areas where renewal is proceeding.

The paragraphs below initially set out the process very generally and are followed by a more detailed description.

### a) General

In new subdivisions the owner-developer retains planning consultants who, he feels, are aware of procedures in a particular municipality. He gives them some general guidelines of what he might like re singles, semis, apartment blocks, shopping centres, industrial, etc., and asks them to prepare a plan which will be acceptable to the municipality.

Many discussions are carried on between the consultants and municipal staff and a plan is finally prepared which the consultants and the developer feel has a good chance of acceptance by the municipality.

This plan is then refined and submitted to the Ministry of Treasury, Economics and Intergovernmental Affairs as a draft plan of subdivision and at the same time it is usually submitted formally to the municipality.

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1. Most of the land for Bramalea was purchased in 1958 for approximately \$1,100 an acre. A holdout was recently sold for \$18,000 an acre.



The province then distributes the draft plan to as many as 38 different bodies which can comment, criticize, or suggest changes to the plan.

At the municipal level, the plan may be formally circulated to as many as 20 different agencies, some of which may take a different attitude when formally consulted because their elected representative must make a public recommendation on the matter. In addition, ratepayers in the surrounding areas are now frequently consulted and their views may lead the planning board or municipal council to dictate changes to the plan.

All these comments must be considered and the developer must attempt to overcome all criticisms. If he is unsuccessful he must then convince the ministry, that there is little he can do. TEIGA finally issues "draft plan approval", which always has attached a considerable list of conditions that the developer must satisfy before he can proceed.

Once these conditions are satisfied he negotiates a subdivision or development agreement with the municipality and can then begin to service the property.

Different municipalities have different criteria about when houses can be built, but the services must always be well along before occupancy.

In re-zoning in cities where plans of subdivision are not used, the developer generally knows what the official plan or secondary plan and/or zoning by-law for an area allows, and he has an architect prepare plans which generally meet the requirements. Here again, there are always many discussions with planning officials before submission for a by-law is made. Quite often all problems cannot be resolved and the planning commissioner in his submission to the planning board outlines the differences and makes his recommendations. Customarily, developers may appear at planning board meetings to present their arguments for the differences. The meetings are open to ratepayers as well.

The planning board may have several meetings before finally recommending to either a building and development committee, or some other committee of elected representatives, what they feel should happen.

More open meetings are held during which the planning commissioner, the developer and the public may present their views; the civic committee must then make a recommendation to a full council or to the executive board or the board of control.

Again, at these levels public hearings are held, except in the City of Toronto, and a final by-law is drawn up and passed or refused.

If a by-law is passed, it is sent to nearby owners for comment and then submitted to the O.M.B. who, if there are objections, hold a hearing for all to present their cases.

If the municipality refuses to pass a by-law or takes no action in a request for an amendment, the developer may ask the O.M.B. for a hearing at which all parties may present their cases.

The O.M.B. may then give a decision which may be appealed by the municipality or by the developer to the Cabinet of Ontario who can take the final decision.

b) The Process in Detail.<sup>1</sup>

i) Review. The developer reviews an area into which he is thinking of moving to see whether he can reasonably expect to:

- Acquire land at a price that will permit him to develop and sell at a figure that is locally competitive. (If lots in London sell for \$10,000 the developer cannot pay Toronto land prices where lots sell for \$20,000.)
- Develop at a rate which fits in with the way his company operates. (Thus, a large company needing to produce a minimum of say 100 houses per annum could not operate in say Ingersoll where the local market per annum may be only 20 units.)

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1. See So you want to Subdivide. Subdivision Procedures - published by The Community Planning Branch, Department of Municipal Affairs - Toronto, March, 1970.



- Develop with any reasonable degree of comfort.  
(Some towns and cities are very "close" and outsiders find it very difficult, indeed sometimes almost impossible, to operate in them. Other municipalities have difficult labour problems that may dictate land development only, leaving the house building to local operators.)

ii) Investigate. This step may actually come before (i) although sometimes it follows after. The developer having decided in very general terms that he would like to go into an area, may either himself or via a planning consultant, check out the following:

- Provincial policies, either regionally or locally expressed, and any constraints occasioned thereby.
- Local planning policies that may or may not inhibit development.
- Local servicing systems to determine which areas are likely to develop in the reasonably near future.
- General growth rates in the town to see whether there is a market potential in relation to the physical potential on the ground.

iii) Acquire. Assuming that he finds the area reasonably attractive and having some development potential, he may then:

- Block off general areas into which he would like to move.
- Find what land might be purchased, either through a real estate agent or on his own.
- Tie up potentially attractive land if possible while undertaking further studies.

There are several ways in which the developer may attempt to obtain land:

- An offer to purchase:  
Conditionally  
Unconditionally



- By option:

With renewal clauses at specific amounts, without renewal clauses or without specific amounts. (Both these can be either with or without conditions attaching to the options.)

- A joint venture with the owner, with the developer putting in some money.
- An outright purchase with a mortgage back and certain time limits attached.

iv) Consult. In municipalities with professional staff there will be preliminary negotiations with the key civic departments and with others which, for specific reasons, may have important input. These will certainly involve the planning director, the municipal engineer, the head of the P.U.C. if there is a separate water system, the education departments (public and separate) and, if appropriate, the local conservation authority and the county road department. He may also consult at the provincial level with the ministries dealing with the environment and natural resources, and C.M.H.C. at the federal level.

v) Secondary Plan. Frequently, the developer will be asked to produce a secondary or district plan, covering his own and others' land. The planning consultant will then proceed with:

- a) Consultation with owner
- b) Consultation with municipal people
- c) Preparation of sketch community plan
- d) Consultation with the owner re results of b) & c)
- e) Consultation with adjacent owners (frequently necessary)
- f) Revisions to the plan or plans
- g) Re-consultation as in b) and e)
- h) Preparation of presentation drawings  
of scheme technically agreed with municipal staff
- i) Presentation of scheme to public meeting conducted  
by planning board and/or council committee

- j) Revisions to scheme in light of i)
- k) If appropriate, preparation of complete district plan document suitable for adoption by council and presentation to Minister.

vi) Detailed Design of Draft Plan

On the basis of general secondary, etc., plan the consultant will:

- Prepare a detailed subdivision design, including lots, blocks (for housing, church, park, school, commercial and other uses such as fire hall, pumping stations, electrical substations, gas regulators, etc., and easements). Check carefully with engineers for economy and do first run of yield, cash flow, etc., as appropriate.
- Review the design with the owner.
- Review the design on a preliminary basis (and usually unofficially) with municipal officials including planning and engineering (up to six engineering divisions such as sewers, sewage treatment, water, storm drainage, road design and traffic). These may have opposing views to be reconciled. If the developer wishes to use C.M.H.C. it must be brought in at this point. It usually sides with the planning department but not always. If it has a third view, negotiations are more complex.
- At this stage it may also be appropriate to review the plan with some provincial agencies such as conservation. They may have very specific views about lot lines and building lines near valleys and creeks, siltation during construction resulting from the grading of lots, etc. Sometimes their requirements mean a return to the municipality with revised plans.
- Continue the iterative process until everyone appears happy.

vii) Obtaining Draft Approval

- Draw a proposed draft plan of subdivision for formal submission to the Minister of Treasury, Economics and Intergovernmental Affairs pursuant to Section 33 of The Planning Act.
- Get negative of plan signed by owner and surveyor.
- Submit up to 30 copies of the plan to the Minister and up to 30 to the Municipality. (The sheer bulk and weight of this paper can be astonishing. The plan is normally drawn at 100' = 1" so that together with required supporting information it will likely measure 3' - 6" x 6' - 0" for a 200-acre parcel. Printing and folding 65 of these is a long task.)
- After a week, check to see that plans have arrived, have been allocated file numbers and formally circulated.
- Allow a couple of weeks and start negotiations with appropriate provincial and local departments. Allow at least six months and possibly one year for this. Even if all seemed satisfactory at the "informal" stage, there will almost certainly be further "refinements" at the "formal" stage. Nevertheless, it is usually still worth going through the "informal" stage first.
- Ensure that all people, boards or commissions consulted submit their recommendations to the Minister or planning department as appropriate.
- When all replies have been received at the local level, prepare amended coloured presentation drawings for a public meeting which council or the planning board may hold.
- After public meeting amend plan if appropriate and hope that at the next meeting of the planning board or committee the plan will receive a recommendation of draft approval. This may be accompanied by some of the more important matters that will be contained in a subdivision agreement, or a development agreement and may also be accompanied by a draft zoning by-law amendment if needed.



- If it is approved, Council forwards a recommendation of draft approval to the Minister and later passes a zoning bylaw which is sent out on notice and then to the O.M.B. with a request for hearing, if there are any objections. (Allow 4 weeks between council approval and determination as to whether a hearing will be necessary. One may, of course, know if there has been opposition during public meetings prior to draft approval that has not been entirely overcome for one reason or another.)

- Check to see:

that the Minister receives the council's recommendations and if he has any queries; and

that responses are complete from people to whom the province circulated the plan. Some of these may not reply (deliberately) until the municipality has recommended draft approval. Sometimes this process takes a couple of months, especially if the planning board meets only bi-monthly.

viii) Obtaining Approval.

- Upon receipt of a letter of draft approval from the Minister, check conditions and alterations to design. If appropriate, prepare copies of amended plan for use by surveyor and engineers.
- Surveyor and/or others calculate lots, blocks, etc., on plan and surveyor stakes this on ground (one to three months' work depending on size and complexity of plan and size of surveyor's offices and calculation -- manual or computer system -- method used).
- Engineers carry out detailed engineering design of plan internally and, if required, the design of works external to the plan. (Creek channel improvements, oversize and external pipes connecting to trunks -- water, sewer, storm sewer -- all as specified by the municipal engineer and sometimes other government officials.) This design work may take a crew many months for say 100 acres.
- Submit engineering design to municipality and other appropriate governmental agencies and negotiate. This process may take from two months to two years even when there are no arguments.

- When engineering design is complete and accepted, assist the municipality in drawing up appropriate subdivision and development agreements. This may involve detailed negotiations with engineering department (several divisions), P.U.C., parks re specific grades, seeding, sodding, etc., education, easements, grades on frontage, sidewalk, etc., and sometimes price, plus others as required.
- Prepare deeds and easements where required.
- Provide bonds or other security for construction.
- Check to ensure that, when ready, council resolves to authorize officers to execute agreements.
- Obtain all letters of clearance from municipality, boards and commissions and present with final linens to the Minister for approval.
- With Minister's approval, register in the registry office and in Land Titles, if appropriate.

## C. THE SUPPLY OF LAND

### 1. Raw Land

The shortage of serviced land is the single most important factor in the high cost of lots and the consequent escalation of house prices. Ideas as to how to improve the situation vary considerably.

At the one extreme it is suggested that, if the government spent money on trunk services to "open up" more land, this, in itself, would reduce land costs very swiftly. At the other end of the spectrum it is stated that land banking by any level of government could serve as a means of regulating the cost of land. Clearly there is an element of useful thinking in both statements.

Because of the restriction on borrowing for capital expenditures, most municipalities cannot finance the construction of major trunk services (roads, sewers, water). Thus, the province remains in effective control of the staging of new development in many cases. At the present time the province does not appear, for the most part, to be implementing the trunk services within the context of a comprehensive development plan for the province as a whole, or even regions therein. To control land prices, large builder-developer corporations would like to see an over-supply of serviced land in the private sector, in all municipalities, of about 5% of estimated annual lot sales. (Estimates do run as high as four times the yearly lot sales for residential land.)



It is also suggested that the lack of certainty about the location and timing of services has contributed to high land prices by encouraging speculation. Unquestionably, there is a good deal of truth in this assertion. Also, there are clear indications that the financial constraints being felt by Boards of Education have and probably will frustrate development in many burgeoning areas. Whatever the reason for high land prices, the servicing of the land is a very complex matter.

Until the late 'forties or early 'fifties municipalities used to install services and roads and charge them against properties serviced. However, municipalities soon became incapable of financing these services and as a result the development industry was born, where the land developer was responsible for all services.

Once all agreements are signed and the plan registered, the installation of services begins. The consulting engineer who designed the services calls tenders on behalf of the developer in accordance with engineering designs and subdivision and/or development agreements.

There are subcontracting firms that install only sewer and water facilities, and there are firms that install only roads, or only sidewalks and curbs, and there are combinations of the above.

Tenders are received and awards and contracts signed with the successful subcontractors.

The developer, who in the agreements with the municipality was required to give bonds to the municipality to ensure the proper installation of services, makes arrangements with various subcontractors to install the services and retains holdbacks until his obligation to the municipality is relieved.

First, water and sewer facilities are installed and connections are put in for all houses and other buildings, if known. After these are in and properly backfilled, the gravel base -- or part of it -- for the roads and curbs is installed. This work is completed after the curbs and curb cuts to accommodate driveways have been put in place.

At this time installation of gas mains and hydro must be integrated with the other work.

Once the gravel base is in and consolidated, the first layer of pavement is laid down; this must generally be done before the houses can be occupied.

Once the road has had considerable wear and tear, a second layer of pavement is installed. The developer is then generally held responsible for the maintenance of the roads for at least another year before the municipality takes over the works.

At the time of entering the maintenance period, the original bond requirement for the developer is reduced, but is not completely withdrawn until the end of the maintenance period.

The work noted above is almost always supervised by the consulting engineering firm that designed the work and then inspected by the municipality. Final clearance is provided by both to the developer.

## 2. Vacant and/or Built-on Land in Developed Areas

The process involved is similar to that for raw land but involves smaller and far more expensive property, especially if built on.

Market and feasibility studies are carried out, services checked, and official plan, zoning and other regulations are reviewed to determine potential. Options or offers are then negotiated.

Because the "planning process" may mean a long delay between acquisition and construction, the property may be leased. The need for flexibility in timing generally dictates short term leases because the developer wants to be able to move swiftly once approval is secured.

Short term leases sometimes, but not always, mean that the lessee does not bother to respect the property. Thus accusations of "block busting", etc.

Large scale assembly in developed areas is a very costly, difficult and time-consuming procedure. Land may cost one million dollars an acre, or even more if old (but not necessarily all completely obsolete) housing is acquired. Thus if the value per suite is say four thousand dollars, the density must be at least 200 units per acre for the developer to break even.

Because of strong ratepayer opposition to almost any new form of development in built-up areas, it is becoming increasingly difficult to redevelop remnant parcels of land. Thus, for the present, the development of central residential areas is dropping off.



The difficulties of redevelopment are recognized (but not necessarily tackled) by planning commissioners who would like to see some new development and renewal in existing urban centres; but the developers claim that they can no longer rely on the planners. They can no longer count on the official plan, or on being able to get a rezoning approved that implements that plan.

Thus, it is stated, risks are increased and financing costs are becoming prohibitive. Many developers would like to see special government lending rates for assembling land in designated areas in cities, not only to reduce the cost of high risk money, but also as official acknowledgement that the government find this type of development acceptable.

a) Densities

- Determining Densities

These are generally part of the process involved in the drafting of the official plan. In sophisticated municipalities, the official plan (Part 1 or General) will discuss ranges of high densities and may define some in the text and may locate them as one or more schedules (maps). In many municipalities no guidance is provided. In some areas secondary or district official plans deal with densities more fully, setting out quite precisely what is meant by various groups of unit types and where they may be located. (The Borough of North York and the City of London have documents of this kind.)

- Rationale

Only a few municipalities define the quality of life they want, and assess housing need and determine densities in relation to this quality. Almost none of the municipalities determines densities on the basis of urban design of the total area. The official plan designations are usually based on a combination of the following elements: the land use patterns and zoning by-laws existing when it was written or updated; the infrastructure -- Sewers, water and street patterns -- existing at that time; the official plans and zoning by-laws of other municipalities; and the "suggestions" of developers and, now, those of ratepayers.

The rationale for the private sector's selection of densities was outlined quite clearly in the preceding section, that is: to obtain maximum profit with minimum risk, given the restriction of municipal plans and the market.

b) Relationship between Density and Land Value

No detailed studies have been on this subject in Ontario, and informed opinions differ considerably. Some feel that there is a direct relationship: people, they say, calculate the value of their property based on the number of units which can be placed on it, and the value of those units. Others feel that there is some relationship (i.e., overbuilding can lower values through overcrowding and poor facilities), but the impact of the one on the other cannot be clearly defined as so many other factors must be considered (facilities, building costs, etc.)

The value of land is very unlikely to become less but might become more after re-zoning for a new use provided it is more intense.

There are those, however, who say there is no relationship: the value of a piece of property is directly related to the demand for that type of land - if there is a high demand for single family lots, and a declining market for apartment units, the value of a piece of land zoned for apartments will probably be very close to its value if it were zoned for row housing.

Despite all these conflicting views, it would probably be fair to say that the value of a piece of property is related to the most profitable use which may be made of it within a reasonable period of time, say five years. (This of course depends on its location, adjacent uses, building conditions, etc.) For example, the value of a lot 25 feet by 100 feet, used as a commercial art gallery, may far exceed the lot value as part of an apartment assembly at a much higher density; however, its value will rarely fall below that dictated by apartment use.



## D. THE CONSTRUCTION PROCESS

### 1) The Owner-builder Method

Construction is carried out most efficiently by the owner-builder. Virtually all housing, including both single family low density and high rise high density is constructed this way. Owner-builders, however, tend to specialize either in apartments or in low density accommodation (although there are some notable exceptions).

The residential segment of the construction industry is, in several ways, unique. First, unlike most conventional construction, the building contractor is seldom independent of the owner. Second, there are either a great number of unions involved in a single project, or the labour is non-unionized (as in large parts of the single family housing segment); the remaining sector of the construction industry is almost entirely unionized.

There are some projects, primarily apartment, which are built by general contractors in the normal sense of the word, who tender to the owner and give him a fixed price and then subcontract out to the trades. Such contracts are in the minority, but are increasing.

Virtually all residential owner-builders subcontract out most of their work (in this way they resemble the construction industry as a whole), as do general contractors because of specialization. Owner-builder teams employ few tradesmen directly. They usually retain only casual labour and some

supervisory personnel. The remaining trades are contracted by the owner-builder; he is, in fact, the organizer of the construction process rather than a builder in the historic sense.

This system of construction has been extremely efficient, particularly where there is a high level of building activity. Unions are also established on this craft basis which causes considerable problems to the industry.

" The sub-trades in the Metropolitan Toronto area particularly, are so well organized that building operations in this area have seen the rationalization of traditional building methods in a way probably unsurpassed in North America." 1

There are innumerable skilled and semi-skilled tradesmen working in a variety of small and large subcontracting firms. These companies have provided large quantities of housing efficiently and quickly at "reasonable" costs. This efficiency has kept the cost of housing down, and has inhibited the development of systems building. Actually, the residential building process within the province can be considered a rather efficient "field-oriented" system as opposed to a "factory-oriented and unionized" one.

The following are the various subtrade and material negotiations generally undertaken by the owner-builder, or the builder:

Excavation	Damp Proofing
Steel	Portable Toilets
Concrete	Plumbing
Formwork	Heating & Electrical
Concrete & Steel Inspection	
Concrete Accessories	Ventilation
Surveying	Winter Protection
Soil Testing	Drainage
Rough Hardware	Elevators
Hoardings	Garbage Removal
Demolition	City Water connection
Shoring	Hydro connections
Hollow Metal Frames	Carpentry - labour
Ornamental Iron	Styrofoam

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1. Written submission to Ontario Housing Advisory Committee on The Housing Production Process.

Hoist	Brick & Block Laying
Windows	Lathing or Drywall
Brick Sand	Finish Hardware
Brick	Doors
Block	Lawn Sprinklers
Cement	Terrazzo & Tile
Rough Carpentry Materials	Hardwood Flooring
Fire & Kalamein Doors	Finish Carpentry Materials
Resilient Tile	Carpets
Bell Telephone	Garage Door
Closet Doors	Garbage Compactor
TV System	Weatherstripping
Bathroom Cabinets	Electrical Fixtures
Roofing & Waterproofing	Wallpaper - bathroom/corridor
Entrance & Glazing	Cleaning
Plastering	Sauna
Stoves & Refrigerators	Washers & Dryers
Kitchen Cupboards	Landscaping
Painting	Fences
Bamboo Drapes	Signs
Lobby Furniture	Sidewalks & Curbs
Lockers & Benches	Precast Walks
	Paving

It can be seen that the list is extensive, but it is not necessarily exhaustive. (It is almost always exhausting.) However, although raw land costs have risen at a fantastic rate over the last five years and servicing costs have escalated relatively swiftly, the cost of the basic housing unit has remained remarkably steady. The relative percentages for the Metropolitan Toronto area show land costs represent 30 percent - 45 percent of the total housing package.

## 2) The Proposal-Call System

The builder-proposal or proposal-call system is a method of contracting now employed extensively by the Ontario Housing Corporation, although some OHC housing is still provided through standard tendering methods.

The builder-proposal method was begun in Canada in 1951 by Central Mortgage & Housing Corporation to take advantage of land owned in municipalities by developers rather than engaging in wholesale purchases itself.



The builder-proposal method was originally developed in the United States where it was used as an equitable method of allotting public land for urban renewal purposes. The urban renewal authority would decide what kind of development a specific piece of its land should have. Then it would request developers to submit proposals. The land was either leased or sold to the successful applicant subject to the completion of the development as proposed.

This tool was adapted by OHC so as to acquire rapidly a stock of public housing. Basically, OHC says that the method calls for the issuance of a development proposal document which outlines the objectives of the call, delineates the general requirements in terms of number of housing units, bedroom compositions, siting, etc. In addition, the document details the basic design and engineering parameters of the required residential structures.

The basic objective of the proposal document is to allow the builder to collaborate with the architectural and engineering professions to produce well designed residential structures that will be able to achieve economies in construction costs as a result of their co-operative effort. The builder in his proposal will submit plans, specifications and a guaranteed fixed price to the Corporation.

Developers present proposals either for land which they own, or for that owned by the Corporation. In this way it is able to gain a much greater supply of building sites.

A major advantage of the proposal-call system is that it creates a designer-construction team early in the planning process. This team usually must develop a design within a known cost framework; after the design has been selected, the team must complete the work within the price agreed to. This method also encourages a variety of design and construction methods that can compete on the basis of "total end price, overall quality and suitability of the residential design". Finally, and perhaps most importantly, this system employs the land acquisition capabilities of the housing industry by using land which the developers have on hand, or which they acquire in response to a specific proposal-call.

There are disadvantages to this particular method, however. First, it tends to place a greater emphasis on capital costs than on design of quality and construction. The trade-off

between design quality and price is a most difficult one under any circumstances, and is even more so when public housing is being provided. Second, once the design has been selected, and the end cost agreed upon, the designer-construction team is motivated to build the project at the lowest possible cost in order to increase, or at least ensure, its profit. The large number of projects makes it difficult for OHC to see that standards are maintained.

### 3. Industrialized Building

Industrialized building made its first major advances in Europe in 1945, when there was an enormous demand for building construction to repair the war damage, and the construction industry was in a state of disarray. In recent years, however, systems building in Europe has been considerably less effective, and several major experiments have lost large sums of money.

Over the years there has been a variety of attempts to introduce industrialized building production in Ontario. These have ranged from modular component parts (such as the Wates System) to the development of large space cells consisting of one or more rooms (such as those produced by the Systems Construction (Canada) Ltd., and those used by the Polymer Corporation). To date, they have had little success. First, the building industry itself is highly efficient and more economical than industrialized systems. In addition, the factory-oriented construction systems depend on an even and continual flow of construction to cover the costs of plant and overhead; the lack of long-range planning for housing and the slow-down in building during the winter make this a most difficult problem. Finally, transportation costs are higher in Ontario than in (for example) England, because of the greater distances between the major centres of production. In short, as one developer commented:

" ...to date, and this is a matter of history, industrialized building on the Toronto scene has not worked. The degree of sophistication and the efficiency of the Toronto construction industry is second to none in the world, and the development of industrialized building was set up in an environment which had no private market competition basically, and had a perpetual customer in the form of government council housing which made it possible, regardless of cost."

Still, industrialized building should not be overlooked; new techniques and research may yet make it a factor in the provision of housing.



## E. THE COSTING OF HOUSING

### 1. Land and Building Costs

In recent years there has been a growing awareness that the sharply spiralling cost of housing is placing home ownership beyond the range of an increasing number of low and middle income families. Unsubstantiated claims, made by all sectors of the population, attribute these costs to particular groups.

Developers claim that the lack of serviced land, the demands of municipalities, the dictates of consumer tastes, the mortgage rates, and government planning policies are pushing house prices ever higher.

The municipalities feel that, in many cases, developers fail to bring serviced land onto the market--thus creating an artificial shortage--and that developers must be controlled by stringent planning regulations because they are more concerned with making large profits than with providing decent housing.

The consumers, although not quite sure where to lay the blame, attribute it partly to general inflationary trends which the government has failed to control, and partly to the unscrupulous profiteering of the developers.

Central Mortgage & Housing Corporation produces statistics which document the cost phenomenon, and the Ontario Housing Corporation tries to cope with the effects of the problem.

But, generally speaking, the senior levels of government have attempted neither to analyse the individual components of housing costs nor to improve the situation. (It is too early to tell how much real research went into the four-point Federal Plan aimed at reducing land and housing costs, and what its impact will be.)<sup>1</sup>

One reasonably reliable source of information about housing costs is the City of Kitchener Report, "Special Development Areas in Kitchener Reviewed". To implement Kitchener's controlled cost housing policies, the whole question had to be studied thoroughly. The breakdown of the components of a single family house in a special development area (approximate size 1,070 sq.ft.) is as follows:

a) Not included in building permit:

Stake and Certificate	\$	50
Building and Trench Permits		38
Sewer Connections-house to street		100
CMHC Application Fee		35
Mortgage Insurance Fee		200
Legal Fees & Disbursements on Advances		280
Interest on Advances-presold		250
Fire Insurance		15
Lawyer's Fees & Disbursements on Closing (selling)		200
Total		<u>\$ 1,168</u>

b) Included in Building Permit:

Excavation, concrete work, heating, waterproofing, steps, basement floor, framing, roofing, windows and doors, brick, trim, exterior siding, heating, dry wall, plumbing, electrical, floors, painting, caulking, water, etc

Total \$12,346

c) Extras:

Corlon Vanity	\$	160
Driveway		180
Sod		160
Total		<u>\$ 500</u>

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1. Globe & Mail -30/1/73

d) <u>Lot levy:</u>	\$ 500
e) <u>Cost of Serviced Lot:</u>	\$ 5,725
- <u>Profit on \$19,071, item b to e), @ @ 15 percent:</u>	<u>2,860</u>
Total	\$21,931
- <u>Real Estate Comm. on Sale:</u>	\$ 669
- <u>Approximate selling price:</u>	\$22,600

As a result of this study, the planning director could identify areas where increases were permissible (because of labour and building material costs), where costs were exorbitant in relation to the service provided, (for example, legal fees), and where the public sector could provide a service more economically than the private. The effect of a serviced lot costing \$22,000 (as in Metro Toronto) on the total price picture can be seen vividly from this breakdown.

Other elements were included in their costing of housing, such as,

The selling costs which include promotion, advertising, interest on mortgage and land while the house is being built and awaiting sale, and overhead costs for the business itself. These costs could amount to \$2,500 to \$2,600 on a \$20,000 or \$21,000 house. Advertising and promotion can amount to \$735 or more alone.

One private developer estimated that it costs approximately \$400 a month to carry a house on the market.

The private sector has been very assiduous in its efforts to identify what it feels to be the chief contributors to the high housing costs.<sup>1</sup> It has also been most inventive in devising ways to circumvent the problem (as, for example, in its recent attempts to find a way to remove the cost of land from the housing package through leases, etc.) It recognizes, however that it is responsible for only a small portion of the total amount - land, building (labour and materials) money, and taxation - and that all factors must

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1. See, for example, Residential Land Development in Ontario, Urban Development Institute, 1972.



be held in check if the end cost is to be curtailed. Land is the most important element (as we have already mentioned), and the cost of money the second most significant. (The President of Cadillac Development Corporation estimates that a rise of 1 percent in the interest rate is equal to about a 10 percent increase in the capital cost of shelter.)

" The increase of interest rates has affected the costs of shelter to the consumer more over the last five years than the sum total of all labour and material costs, all sales taxes and all increase in property taxes during the same period." <sup>1</sup>

Changes in mortgage interest rates for housing are assumed directly by the purchaser or user. In the case of single family detached housing, the mortgage payments over the length of the mortgage are increased accordingly, and rents in apartments are also affected.

Business is by no means faultless in the housing crisis, and private interests probably have increased prices, but the government has failed to stop them doing so. Developers claim that their profits today are no more on a \$35,000 single family house than on a \$17,000 house ten years ago (in absolute not relative terms). Net profits, however, are not a fair representation of their financial situation to either their shareholders, the government or the public at large). Because of accounting practices, land is entered at its cost, not at its appraised value, and the difference is considerable, as this recent (October, 1971) appraisal conducted for S.B. McLaughlin shows:

Land Development	Cost	Appraisal Value	Appraisal Surplus
Mississauga	\$46,175,310	\$100,996,700	\$54,821,390
Georgetown et al	4,986,959	9,193,800	4,206,841
Income Properties	13,768,903	16,562,956	2,794,053
Total -	\$64,931,172	\$126,753,456	\$61,822,284
Leasehold Interest	189,526	945,000	755,474
Purchase Agreement	7,270,856	7,327,000	56,144
Total -	\$72,391,554	\$135,025,456	\$62,633,902 <sup>2</sup>

1. See Housing in the 70s, a view from the private Sector.  
A.E. Diamond.

2. Financial Times Information Card

In addition, depreciation and deferred taxes are not regarded as the equivalent of earnings, which in many cases they should be, for good real estate appreciates, and with the passage of time and steady reinvestment in new projects, deferred taxes will, in effect, never be paid.

To sum up, one can only say that the whole area of the costing of land, building and financing to the consumer is so involved and complex that it deserves a special study of its own.

## 2) Methods and Costs in Sale and Rental

Relatively little information about this particular aspect of the costing of housing was supplied in the interviews, discussion groups and submissions. (Some of these aspects will be covered in the following section on Financing.)

In new apartment development, rentals generally reflect:

1. Principal and interest payments = 45 percent - 50 percent of rent
2. Taxes = 20 percent - 25 percent of rent
3. Operating = 20 percent - 25 percent of rent
4. Remainder is return on equity, if any

Much concern was expressed over the current financing requirements for mortgages. Developers felt that the rules of financing and debt service were so rigid that no flexibility was left to the lender to gauge the ability of the purchaser to pay. One improvement would be to introduce a graduated payment system, so that the monthly carrying charges would reflect the purchaser's potential income, rather than his present income, fixed over time. Under recent amendments to N.H.A. mortgaging, the gross debt service qualifications have been increased to 30 percent of income plus all or a part of the spouse's income. In a recent study of a condominium project it was found that purchasers had paid for 5 percent to 65 percent of their income in rents in their former accommodation.

There was a large amount of interest in separating the land cost from the building costs. Houses, some felt, should be purchased but their land leased (monthly rental would cover

the builder's carrying costs), as this would both reduce costs for the developer and make the total debt much less steep for the consumer. Condominium legislation was acknowledged as a major step towards making home ownership more accessible to middle income groups. The success of many other comparatively new forms of land tenure - such as conduplexes - was also noted. Although it was agreed that management problems varied considerably depending on the type of tenure of a project, no particular financial benefits were associated with the different forms of land tenure. Yet one developer, who wishes to remain anonymous, stated:

"One of the biggest deterrents to this kind of thinking (innovative techniques in land tenure) is the legal profession. The biggest job we in the industry have to undertake is to educate the legal profession as each one of the concepts is put into operation."



## F. FINANCING

### 1. The Seven Stages of Financing

Funds are required during seven successive stages in the housing production process, each of which has a different element of risk, and demands a different form of financing. Generally, money is provided in two broad forms--equity and debt.

Equity is supplied by new or outside dollars invested, existing capital or retained earnings reinvested, and appreciation in property values over a period of time. All require a return on investment in the form of cash or its equivalent, or increases in property asset values.

Debt is provided in a myriad of forms, requiring an interest return and repayment of the borrowed funds. The seven stages which require financing are:

#### a) Preliminary Planning & Investigation

The expenditures made during this time are necessary to determine whether or not the developer should proceed. The outlay is usually small in relation to the total project costs, but must be considered entirely risk dollars. Because of this, funds employed for these purposes are the equity funds of the proponent. Real estate developers would tend to treat these costs as on going overhead to replenish inventory.

b) Land Acquisition and "Carrying" Period

Money for this stage is needed from the time of acquisition until construction starts. Its length is a critical factor in determining the profitability of the project. Anywhere from 5 percent to 50 percent of the total project expenses are incurred during this time. Usually a combination of equity and debt is required to finance this period. Initial land costs and the cost of debt involved are very sensitive to market factors of both general monetary condition and local real estate market conditions. Since profitable development of specific parcels of land is frequently questionable because of uncertainties regarding permitted uses, as well as the usual supply/demand factors, the rate of return on equity and debt funds invested is generally high. More long-range planning, servicing of land and stability of housing production would significantly decrease the rate of return required in this category, and reduce speculation.

c) Land and Site Planning, Engineering and Surveying

Funds used during this period pay for the designing of subdivisions and municipal services. The amount is usually based on a percentage relationship of the cost of the services and the number of housing units. Debt financing is normally obtained in conjunction with the municipal services.

d) Municipal Services Installation

From 5 percent to 25 percent of the total project money is needed to finance the required external and internal services to building locations, and to pay government imposts. As this debt is incurred only after land use approvals are secured, however, this money, is frequently recovered within a relatively short period of time (one to two years) on the sale or development of the property. Money available from banks and from short-term private and institutional lenders tends to have a higher rate of interest than permanent financing, precisely because of its temporary and cyclical nature.

e) Housing Unit Design and Construction Supervision

The amount needed in this section is usually based on a



certain percentage of the construction costs. The financing is arranged at the same time as that for the construction.

f) Housing Construction

This is the largest component of the project cost, and can range anywhere from 50 percent to 85 percent of the total value. Permanent debt financing is frequently arranged at this point, to be assumed by the purchaser or paid by the user as rent. Permanent financing, or debt, can account for 75 percent of this cost component, the remainder being regarded as equity.

g) Marketing or Holding

The expenses in this stage are incurred in securing an occupant for the building, and in maintaining and holding the property between the time construction is completed and the time when it is sold or leased. Although provision is made for these costs by the builder, the full amount is largely a matter of conjecture until the project is finished and sold or leased. As a result, funding is usually by means of equity from operations, or new investment dollars.

It would be fair to say that generally, while the end purchaser or user of housing in Ontario can occupy space on a 100 percent financed basis, the developer or producer requires between 5 percent and 30 percent of the total project cost in the form of invested capital: That is, debt furnishes between 70 percent to 95 percent of the final costs. As so much of the cost of debt financing is influenced or controlled by the government, the impact of government policies on planning and financing should not be underestimated.

Money for producing houses comes from a wide variety of sources: the general public, private syndicates, institutions and governments. However, the housing industry must compete for monies in terms of security and rate of return, with all global investment dollars; to date it has had considerable problems in attracting capital.

First, there is still no aftermarket for NHA mortgages and this may be further affected if new tax control legislation is introduced.



Second, there is a reluctance (caused by lack of trust and understanding) on the part of major investors, such as pension funds, to put money into this field. In the United States, for example, only 5 percent of the enormous sums in pension funds have been invested in real estate, and most of these are in mortgages. The creation of Real Estate Investment Trusts (two in Ontario and one in British Columbia, over 140 in the U.S.) will help to channel money into this area. (U.S.Trusts have assets of over \$6 billion.) However, in the United States only 40 percent are interested in equity participation. Still they will encourage a wider range of people to invest in real estate,<sup>1</sup> especially in Ontario where they are managed by such solid and trustworthy institutions as a major bank and trust companies.

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1. Over 55 percent of the assets are held by the public in the U.S.

## G. THE ROLES OF THE PARTICIPANTS

This description of the housing production process shows that five main parties have influenced the process: the consumers, the governments, the development industry, the development industry's technicians and advisors (including the planners, designers, market analysts and lawyers), and the ratepayers who already have houses. There are others, of course, but their impact has been less significant.

### 1) The Consumers

It is somewhat ironical that the least significant of these five groups is the consumer. It is true that his preferences and tastes do have some effect on the style and type of accommodation provided, if we are to believe the builders who say that consumers contribute to the high cost of housing by demanding frills and a variety of designs. It is true, too, that his form of employment, family size, and income level determine the overall quantity and mix of housing which the developer is willing to provide. However, his real desires do not play a significant part in the process. He is, therefore, involved in only two stages: first at the planning stage, indirectly when the design and size (and thus to some extent the cost) are decided upon; and second, directly when he purchases or leases the property from the developer. The developer, through experience and surveys, tries to gauge the desires of the consumer, bearing in mind that each one has different demands.

## 2) The Governments

The three levels of government set the framework of the whole process. The federal level is involved in two ways, both concerned with financing. It sets the general guidelines for the way development should occur, and outlines Canada-wide targets for unit construction. To implement its programs it allocates funds to special areas (such as public housing, sewer loans). Second, it acts as a major lending institution by supplying funds to the provinces, municipalities, developers and consumers for the purchase and provision of housing.

The province controls accommodation in many ways, both directly and indirectly:

- a) Through its impacts on local government institutions (financial, legislative, etc.) which to a major degree influence the municipalities' behaviour towards housing.
- b) Through its direct approval function of actions by both the municipalities and private developers (going far beyond the approval of zoning, official plans, subdivision consents, etc.).
- c) Through direct entry into the housing field (direct construction, land assembly, the H.O.M.E. program).
- d) Through fiscal policy directed to relieving some groups from the cost of housing (tax abatement, deferred taxes, assistance).
- e) Through direct construction of infrastructure (i.e. ministries of the environment, health, treasury & economics, etc.).

The local governments further regulate development. Street patterns, servicing standards, lot sizes and housing types are all (theoretically) controlled at this level. Their major input comes at the design stage of the project.

It can be seen that the parameters within which the other participants can operate are fairly rigidly defined by the "government" group.



### 3) The Development Industry

This includes land developers, developer-builders and builders. In Ontario, the most numerous participants in the industry are the developer-builders. The trend began when many of the large apartment and house builders turned to land development in an attempt to ensure a continuing supply of serviced building land. These companies have steadily increased in size and scale of operations; many who were once small entrepreneurs are now presidents of large public corporations. This group are the catalysts in the housing production process and should, therefore, be considered as the principal performers in it.

Land developers are involved in raising funds, purchasing land (and frequently assembling it) and submitting plans for development projects to the municipalities and the provincial government. Once approval is granted and the conditions negotiated, the developer prepares the land, installs the streets and utilities (if needed). He then either sells or leases the lots to builders (who usually build for speculative sale); or, more likely, keeps the land and builds on it himself, supervising all phases of construction and marketing. Developers are involved in all aspects of the process from the purchase of land to the installation of sewers, from the design of the houses to their sale to the public. Their business acumen, entrepreneurial ability and financial resources are an essential part of the entire process.

The apartment builder has even greater responsibilities, for he is confronted with some 100 rental transactions and then must be responsible for mortgage payments, taxes, maintenance, for as long as 35 years after completion.

### 4) The Advisors and Technicians

The final group of participants are the technicians and advisors of the development industry--the men who actually implement the ideas. The market analysts are involved in three stages: first, at the time a decision is made whether or not to purchase a particular parcel of land; second, when the mix and price of housing to be built are determined; and, finally, at the time a marketing strategy is developed. The designers and planners are usually outside consultants and are involved in two main stages: the development of preliminary plans, and final layout of

subdivision plans (and in some cases they also prepare the entire secondary or community plans). Planners also act as go-betweens between the development company and the municipal staff, interpreters of the official plan and other municipal planning policies, and as "translators" of the zoning and building by-laws. Lawyers, however, have a far greater role to play in negotiations with the municipalities than do the planners: they are involved in the

"interactive process by which physical development is transposed from lines on paper, to buildings on the ground. The wide range of activities which are conveniently lumped together as 'negotiations' have been largely the lawyers bag."<sup>1</sup>

The lawyer is also involved in all aspects of the real estate transactions, both when the developer purchases the property and when he is ready to dispose of it. Lawyers' fees for real estate transactions which could include land acquisition, interim financing, building mortgages, sale and purchase, account for approximately 3 percent - 4 percent of the total cost of a moderately priced house.

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1. The Ontario Economic Council, Municipal Planning Review, Part 1, 1972, p.104.

## H. EVALUATING THE PROCESS

As the effectiveness of, and the problems encountered in, the production of housing differ so greatly between the public and private sectors, they have been considered as two separate items, for the purpose of this evaluation. In reality, however, it is not quite so easy to isolate their different roles.

### 1. The Private Sector

As mentioned, the development industry is no longer made up of small, somewhat shady, financial companies, run by colourful, if unsophisticated entrepreneurs. It is now a multi-million dollar industry with several large public corporations staffed by professionals interested in stability, long term production, and the operation of an efficient and profitable organization for their shareholders. Given the guidelines within which it has to work, and considering its dependence on outside elements whose behaviour cannot be anticipated (for example, governments and labour unions), this sector has devised a very effective system for the production of houses. No country has a better range of housing, or better housed citizens, on the whole.

### 2) The Public Sector

In the late 1950s, the Ontario Housing Corporation was established to meet rising demands for public housing.



The lack of an established housing policy, particularly for the provision of low-cost and subsidized accommodation, created more than the usual development pains. As the Corporation grew, and as guidelines for land development and housing construction were drawn, public demand was satisfied. Now, with an efficient organization and broad experience in housing those who cannot provide for their own accommodation, the Ontario Housing Corporation is recognized on the North American continent as one of the finest institutions in the public housing field.

### 3. Satisfaction With the Product

It is a moot point whether one can be satisfied with a product one has not tried and tested. Home owners, although disturbed by costs, are generally satisfied with the product. Some new homes are now sold with guarantees; they are located in comprehensively planned communities, where excellent recreational facilities are provided, landscaping is extensive, and a virtually limitless supply of packaging (Mock Toronto Georgian, Cape Cod Etobicoke, and French-Provincial Mississauga -- even two styles for semi-detached units) is available. Home ownership, however remains unattainable for a large proportion of the population, but apartment dwellers, so apartment managers tell us, are content with their form of accommodation, and their rents have risen much more slowly than house prices. No study has yet proved conclusively that high rise living causes any serious pathological disorders. The criticism should be not so much that apartments (i.e., the product) are bad per se, but that they are not suitable for certain markets (e.g., families with young children).

It would be fair to say that the housing production process in Ontario has been successful. The residents of Ontario are better housed in terms of space, building conditions, and general amenities, than at any time in their history, and better than most countries. The development industry, despite protestations to the contrary, is showing no signs of faltering; the level of government which is primarily responsible for setting needs and priorities and determining housing policies, has been in power since the war. However, if our goal is the provision of adequate housing in terms of its size, location and cost, for every Ontario family and non-family household, the housing production process, despite the efforts of the development industry, has been only a qualified success.

## APPENDIX

List of Interviews

D. Barker	Planning Commissioner, City of Toronto
J. Curtis	Planning Commissioner, Borough of North York
D. Easton	Planning Commissioner, Borough of Scarborough
B. Elwood	Senior Planner, Metropolitan Toronto
S. Klapman	Commissioner of Planning and Development, Kitchener
H. Petschar	Planning Director, Town of Mississauga
D. Sweet	Planning Director, Township of Chinguacousy
W. Wronski	Planning Commissioner, Metropolitan Toronto

Participants at Luncheon Meeting - Thursday, January 4, 1973

A. Armstrong	President, Bramalea Consolidated Developments
M.J. Bacon	Proctor, Redfern, Bousfield & Bacon
J. Berman	Exec. Vice-President, Cadillac Developments Ltd.
P.J. Harvey	President, P.J. Harvey Realities Ltd.
W. Manthorpe	Exec. Vice-Pres., Meridian Property Management
A. Scott	Vice-Pres., Costain Estates Ltd.
H.I. Stricker	President, Heathcliffe Developments Ltd.

Luncheon Meeting - Thursday, January 11, 1973

A. Armstrong	President, Bramalea Consolidated Developments
M.J. Bacon	Proctor, Redfern, Bousfield & Bacon
J. Berman	Exec. Vice-Pres., Cadillac Developments Ltd.
P.J. Harvey	President, P.J. Harvey Realities Ltd.
W. Manthorpe	Exec. Vice-Pres., Meridian Property Management
A. Scott	Vice-President, Costain Estates Ltd.







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